

Message Text

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FM AMEMBASSY OTTAWA

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SUBJECT: ECONOMIC COUNCIL OF CANADA ANNUAL REVIEW

1. SUMMARY. ECONOMIC COUNCIL OF CANADA RELEASED ON NOVEMBER 26 ITS 11TH ANNUAL REVIEW. NEWS RELEASE GIVING GENERAL WRAP-UP OF REPORT WARNS OF POSSIBILITY OF INCREASED INFLATION IF "EFFORTS MADE TO SPUR ECONOMIC GROWTH BEYOND THE ECONOMY'S ABILITY TO PRODUCE, IN THE HOPES OF REDUCING EMPLOYMENT". REPORT SUGGESTS, INTER ALIA, THAT DOMESTIC OIL PRICES BE ALLOWED TO MOVE TO INTERNATIONAL LEVELS AS MEANS TO SPUR DEVELOPMENT OF ADDITIONAL SUPPLIES AND TECHNOLOGICAL CHANGES. SOME CANADIAN NEWSPAPERS' INITIAL REACTION TO REPORT WAS TO HEADLINE THIS SUGGESTION TO EXCLUSION OF ALL OTHER CONCLUSIONS AND RECOMMENDATIONS. EMBASSY WILL PREPARE ANALYSIS OF COMPLETE REPORT. END SUMMARY.

2. ECONOMIC COUNCIL OF CANADA, ESTABLISHED BY PARLIAMENT IN 1963 AS ADVISORY BODY AND COMPRISING MEMBERS FROM BUSINESS, LABOR AND GOVERNMENT, PUBLICLY RELEASED ON NOVEMBER 26 ITS 11TH ANNUAL REPORTS BEING SUBMITTED TO PM TRUDEAU. REVIEW SUMS UP RECENT ECONOMIC PERFORMANCE AND SUGGESTS ECONOMIC TARGETS TO 1977.

3. COUNCIL ISSUED SEVERAL SEPARATE NEWS RELEASES ON
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SPECIFIC SECTIONS OF REPORT AND A "GENERAL WRAP-UP".

THIS PROBABLY LED TO SOME CONFUSION ON PART OF PRESS REPORTING ON COUNCIL'S CONCLUSIONS AND RECOMMENDATIONS WITH NEWSPAPERS HIGHLIGHTING ONE SECTION OR ANOTHER INSTEAD OF ENTIRE REPORT. OTTAWA NEWSPAPERS, E.G., HEADLINED COUNCIL'S SUGGESTION ON OIL PRICING POLICY TO EXCLUSION OF OTHER SPECIFICS OF REVIEW.

4. COUNCIL REVISED DOWNWARD ITS GROWTH TARGETS FOR CANADIAN ECONOMY AS PRESENTED IN LAST YEAR'S REVIEW. ANALYZING PRESENT ECONOMIC PERFORMANCE, COUNCIL SUGGESTS DESIRABLE GROWTH RATE FOR REAL GNP WOULD BE ANNUAL AVERAGE OF 5.5 PERCENT TO 1977. LAST YEAR COUNCIL HAD SUGGESTED 6 PERCENT REAL GNP GROWTH.

4. REPORT STATES THAT CANADIAN ECONOMY HAS BEEN OPERATING AT CLOSE TO CAPACITY DESPITE A MORE THAN 5 PERCENT UNEMPLOYMENT RATE, AND WARNS THAT "EFFORTS TO SPUR ECONOMIC GROWTH BEYOND THE ECONOMY'S ABILITY TO PRODUCE, IN THE HOPES OF REDUCING UNEMPLOYMENT, COULD WELL INTENSIFY INFLATION". THE COUNCIL SAID THAT THE GAP BETWEEN ACTUAL AND POTENTIAL OUTPUT IN CANADA LARGELY DISAPPEARED IN 1973 AND "EVEN WITH MORE MODEST GROWTH IN OUTPUT IN 1974-1976 AND WITH RAPIDLY INCREASING NET INVESTMENT, CAPACITY WILL FOR SOME TIME REMAIN TIGHT IN COMPARISON WITH 1972."

6. COUNCIL PAID PARTICULAR ATTENTION TO PROBLEMS OF INFLATION AND THE "INTERNATIONAL SCRAMBLE FOR OIL AND GAS SUPPLIES". CANADA HAS "TEMPORARY ADVANTAGE IN THE ENERGY SITUATION" BUT ADVANTAGE COULD QUICKLY EVAPORATE. OIL PRODUCTION FROM CONVENTIONAL SOURCES IN CANADA WILL FALL BELOW DOMESTIC CONSUMPTION IN "ONLY A FEW YEARS".

7. COUNCIL SUGGESTS THAT DOMESTIC OIL PRICES BE ALLOWED MOVE TO INTERNATIONAL LEVELS BECAUSE "CANADA WILL FACE SHARPLY ESCALATING OIL PRODUCTION COSTS AS MORE EXPENSIVE SOURCES REPLACE CONVENTIONAL ONES. THE POLICY OF KEEPING OIL PRICES TO CANADIAN DOMESTIC CONSUMERS BELOW THE PRICE OF ALTERNATIVE SUPPLIES

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CANNOT BE MAINTAINED FOR VERY LONG; AND IF IT WERE PURSUED AS A MEDIUM TERM OBJECTION, IT COULD SERVE TO DELAY NEEDED ENERGY-CONSERVING TECHNOLOGICAL CHANGE, HASTEN THE DEPLETION OF EXISTING RESERVES, DELAY THE PROVISION OF SUPPLEMENTS AND ALTERNATIVES, LOWER THE POTENTIAL VOLUME OF SAVINGS AND, PERHAPS, FOSTER ABORTIVE DEVELOPMENT OF ENERGY-INTENSIVE INDUSTRIES DEPENDENT UPON THE HIDDEN SUBSIDY OF CHEAP OIL AND GAS".

8. OTHER SECTIONS OF THE REVIEW DEALT WITH --

(A) FOOD PRICES, WITH THE COUNCIL SUGGESTING SELECTIVE MEASURES TO DEAL WITH PRICE RISES BUT RULING OUT "ANY GENERAL SYSTEM OF PRICE CONTROLS";

(B) TAXATION, WITH THE COUNCIL STATING THAT THE INDEXING OF FEDERAL PERSONAL INCOME TAXES TO THE COST OF LIVING IN 1974 REPRESENTED ONLY A "PARTIAL CORRECTION OF THE TENDENCY OF THE TAX SYSTEM, DURING INFLATION, TO SHIFT REAL RESOURCES TO THE GOVERNMENT SECTOR FROM THE PRIVATE";

(C) INDEXATION, WHERE THE COUNCIL RECOMMENDS A "SINGLE REFERENCE INDEX" RATHER THAN ALLOWING VARIOUS GROUPS TO CHOOSE THEIR OWN INDEX FORMULA;

(D) QUALITY OF LIFE, WITH THE COUNCIL SUGGESTING THE NEED TO ADD A "SERIES OF SOCIAL INDICATORS TO THE ECONOMIC ONES FOR PROPER ASSESSMENT OF HOW THE COUNTRY IS FARING".

9. EMBASSY WILL STUDY COUNCIL'S REVIEW IN DEPTH WITH VIEW TO PREPARING MORE DETAILED ANALYSIS AND WILL ATTEMPT TO OBTAIN REACTIONS FROM QUALIFIED OBSERVERS.
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